

SOCIAL DEVELOPMENT COMMISSION

The Community Relations-Social Development Commission (SDC) provides various services to low-income individuals in the Milwaukee County area. SDC is also the federally designated community action agency for Milwaukee County and, as such, is eligible to apply for and administer federal anti-poverty funds for a variety of programs. During calendar year 1998, SDC spent \$27.7 million in federal, state, local, and private funds.

In June 1996, the Legislative Audit Bureau and the Milwaukee County Department of Audit issued a report that confirmed weaknesses in SDC's financial management, purchasing, and personnel practices. That report expressed concern over SDC's financial condition and contained recommendations for improved management. The Milwaukee County Department of Audit followed up on the recommendations during 1997 and concluded that SDC had generally implemented appropriate corrective actions in the areas under review.

One of the areas that we and the Milwaukee County Department of Audit had not reviewed in detail was the federal Child and Adult Care Food Program, which is designed to ensure that eligible children and adults who are enrolled for care at participating centers receive nutritious meals and snacks. While SDC does not participate in the adult portion of the food program, it does sponsor various child day care centers, after-school centers, and Head Start centers in the Milwaukee area, and it prepares breakfasts, lunches, snacks, and suppers for the centers to serve to eligible children.

The Wisconsin Department of Public Instruction (DPI), which is the state agency that administers the food program, has overall responsibility for compliance with federal requirements. Under a grant agreement with DPI, SDC has assumed administrative and financial responsibility for program activities at participating child care centers, including responsibility for ensuring that centers follow federal and state rules. These rules require SDC and the centers to serve meals that meet minimum nutrition guidelines; to store, prepare, and serve meals under clean and sanitary conditions; to request federal reimbursement only for meals served to children who meet eligibility requirements; and to maintain adequate documentation that the meals were served to eligible children. To ensure compliance, DPI is required by federal rules to perform on-site monitoring at SDC and the centers. SDC is also required to perform on-site monitoring at the centers.

As part of a nationwide audit directed at identifying excessive federal reimbursements and noncompliance with federal requirements, the U.S. Department of Agriculture's Office of Inspector General reviewed SDC's food program operations, with emphasis on the period from January 1998 through May 1998. In its December 1998 report, the Office of Inspector General found that SDC did not monitor child care centers to ensure they maintained sufficient documentation to support the number of meals claimed for reimbursement under the food program and that SDC did not maintain an adequate system of internal control to properly account for all program funds received. In consideration of these findings, the U.S. Department of Agriculture directed DPI to audit the meals SDC claimed for reimbursement and to take steps to ensure SDC's compliance with federal requirements.

At the request of DPI, we performed a limited-scope audit of SDC's administration of the food program from March 1997 through March 1999. During this period, SDC sponsored 83 child care centers, prepared over 3.4 million meals for the centers to serve eligible children, and requested and

received \$3.9 million in federal funds from DPI. As requested by DPI, we limited our review to lunches and suppers. Over our audit period, SDC received \$2.6 million as reimbursement for 1.5 million lunches and suppers, for an average reimbursement of about \$1.77 per meal.

Federal and state rules and instructions require child care centers to document that meals were served to eligible children, including the name of each child served. To ensure accuracy, the documentation is required to be prepared at the time the meals are served. However, SDC did not require child care centers to prepare and maintain meal service records that complied with these minimum standards. Instead, it required after-school centers to note only the number of meals served. Day care and Head Start centers were not required to document either the number of meals served or the names of children served at the time of meal servings; furthermore, SDC required these centers to retain daily attendance records or alternate documentation that could support meal service claims for only six months, although both federal and state program rules require documentation to be kept for the current year plus the three previous years. DPI's monitoring efforts did not fully detect the shortcomings in SDC's meal documentation policies.

Because of SDC's and DPI's inadequate program monitoring, it would not be unexpected that many centers would fail to prepare or retain acceptable records. For our audit period, child care centers did not maintain sufficient documentation for over 646,000 lunches and suppers for which SDC received over \$1,143,000 in federal reimbursement. That amount includes \$998,000 for months in which meal service documentation was not available because centers had discarded, misplaced, or not prepared records, as well as \$145,000 for months in which records that were available did not support the number of meals for which SDC received reimbursement.

Except for the absence of records that SDC did not require centers to maintain, we have no reason to question most of the lunches and suppers that could not be documented. However, our role as auditors is to question all meals for which records were not available. It is DPI's responsibility to resolve our findings with SDC and the federal government. The amount SDC may be required to repay may differ from the amount we question, depending on negotiations between DPI, SDC, and the federal government.

A related concern involves federal reimbursement SDC received for second servings. SDC prepares meals centrally and delivers them to centers based on the number of meals the centers order. If the number of meals SDC delivers is greater than the number of children present at mealtime, the centers may provide the extra meals to children as second servings. However, federal rules require that SDC and the centers take reasonable steps to avoid ordering and preparing extra meals, including adjusting the number of meals ordered to reflect anticipated attendance. If these steps are taken, SDC is eligible for federal reimbursement for a reasonable number of extra meals served to eligible children. For our audit period, SDC requested and received an additional \$126,000 for over 71,000 second servings claimed by the centers.

The federal government does not quantify the number of second servings that may be allowable. However, DPI staff interpret federal rules to prohibit reimbursement for any second servings if a reasonable effort is not made to adjust orders to reflect anticipated attendance. Based on the number of second servings claimed each month by each center, second servings as a percentage of total meals served, and fluctuations in the number of meals ordered, we determined that most centers did not consistently make reasonable efforts to adjust their meal orders to reflect anticipated attendance trends. We question \$99,000 SDC received for almost 56,000 second servings during months in which centers did not appear to make reasonable efforts to adjust their meal orders.

Combined, we question 646,000 undocumented meals and 56,000 ineligible second servings, for which SDC received federal reimbursement totaling \$1,242,000. However, SDC has already repaid \$154,000 to DPI, and we identified an additional \$3,000 in reimbursements that SDC could have requested but did not. Therefore, we question a net amount of \$1,085,000 in reimbursements SDC received under the Child and Adult Care Food Program from March 1997 through March 1999. As noted, these costs will need to be resolved through negotiations with DPI.

SDC has taken steps to improve administration of the food program. For example, it:

- worked with DPI so that the information SDC now provides to centers fully and accurately describes the record-keeping policies and procedures that will meet minimum state and federal requirements;
- provided the centers with mandatory training in record-keeping and other food program policies and procedures in March 1999;
- required centers to enter into new sponsorship agreements under which centers that violate federal rules and regulations will be required to reimburse SDC for ineligible meals served and face possible suspension or termination from SDC sponsorship; and
- increased monitoring efforts, emphasizing record-keeping and retention requirements.

While we did not test the effectiveness of these efforts, which were implemented after our audit period, we believe that they should reduce the extent to which centers report unsupported meals to SDC. In addition, we note that 40 of the 83 centers that SDC sponsored during our audit period no longer participate in SDC's food program. Many of these centers did not maintain adequate documentation of meals served during our audit period and departed from SDC's food program after SDC provided training in required documentation. Because some of these centers are now sponsored by another nonprofit organization in the Milwaukee area, we recommend in separate correspondence that DPI review these centers' compliance with federal and state documentation requirements.

A report by the U.S. Department of Agriculture's Office of Inspector General determined that SDC had accumulated a \$1.2 million excess surplus balance in food program accounts. In addition, the Inspector General found that SDC did not restrict the surplus balance for Child and Adult Care Food Program activities, that SDC did not credit interest earnings applicable to the surplus funds to food program accounts, and that SDC needed to take steps to ensure all federal reimbursements and interest earnings are credited to the food program. We reviewed SDC's efforts to address the concerns identified by the Inspector General and found:

- In January 1999, SDC established and deposited funds to a separate, interest-bearing bank account to document that surplus program funds are used solely for program purposes. We determined that the amount deposited, \$548,000, fully covered the amount we calculated to be the program surplus at the time of deposit.

- SDC credited \$44,000 to its December 1998 food program accounts, representing interest that the Inspector General determined was earned by the program. However, SDC needs to credit an additional \$2,276 for interest earned after the period reviewed by the federal government.
- SDC's accounting system properly accounts for revenues and expenses applicable to the food program, and SDC credits all interest earnings for the separately established bank account to program accounts.

Finally, at the request of DPI, we reviewed whether SDC's records properly reflect a fair and accurate assignment of employee work effort between the Child and Adult Care Food Program and the federal Summer Food Service Program. We found SDC has established reasonable procedures to ensure salaries and other costs of the approximately 95 employees engaged in food service activities are fairly charged to these two food programs, in accordance with federal requirements.
